

**Top Secret**



# Central Intelligence Bulletin

State Dept. review completed

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May 9, 1974

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Approved For Release 2004/07/08 : CIA-RDP79T00975A026400120001-5

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CAMBODIA: Combat continues on widely separated fronts as the Khmer Communists press their campaign against government holdings in the countryside.

In the far southwest, the Communists during the past week have attacked and overrun nearly a dozen government positions along a 20-mile stretch of Route 4 east of the port city of Kompong Som. Government casualties have been relatively light, but four 105-mm. howitzers were lost when the insurgents occupied the small towns of Veal Renh and O Chamnar. Communist strength in this area is not great, and there is no immediate threat to the nearby naval and air bases at Ream. Nevertheless, the government is reinforcing Ream with units from Kampot.

Closer to Phnom Penh, the government base at Lovek remains the target of sporadic artillery and mortar fire. Communist ground pressure has slackened, however, and Lovek's defenders are making cautious efforts to expand their defensive perimeter.

East of Phnom Penh, fighting at the provincial capital of Prey Veng has settled into a familiar pattern of ground probes and shellings. The reinforced garrison there has pulled back from several exposed positions, but the main defense line is intact.

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CHINA: Prospects for the 1974 early harvest--which accounts for almost two fifths of China's grain output--are generally unfavorable at this time, despite sizable increases in acreage. In the fall of 1973, the planting of winter crops (for harvest in the spring and summer of 1974) was hindered by dry weather in the south and unusually heavy precipitation in central and north China. This winter and spring were the driest and coldest in recent years. Unseasonable frost reportedly caused considerable crop kill in south China and will cause up to a one-month delay in the transplanting of early rice in some areas.

The present weather pattern, highlighted by the lingering spring cold, could be a harbinger of more serious trouble ahead. Under similar conditions in the past, the spring monsoons sometimes have skipped over the south and swept rapidly inland. When this has occurred, north China has been deluged by torrential rainfall, while the normally wet southern region has been stricken by drought.

The first low-pressure system of the current spring season arrived in early May and may be following this pattern. On May 1 up to 4 inches of rain fell on the Kwangtung coast. By May 5 the swiftly moving system was producing heavy rainfall as far north as the Yangtze. Dry conditions again prevail in areas behind the system.

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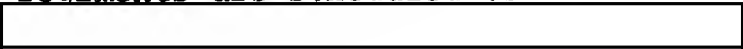


ISRAEL-SYRIA: Fighting on the Syrian front was light for the second consecutive day. Only sporadic tank and artillery fire occurred along the front.

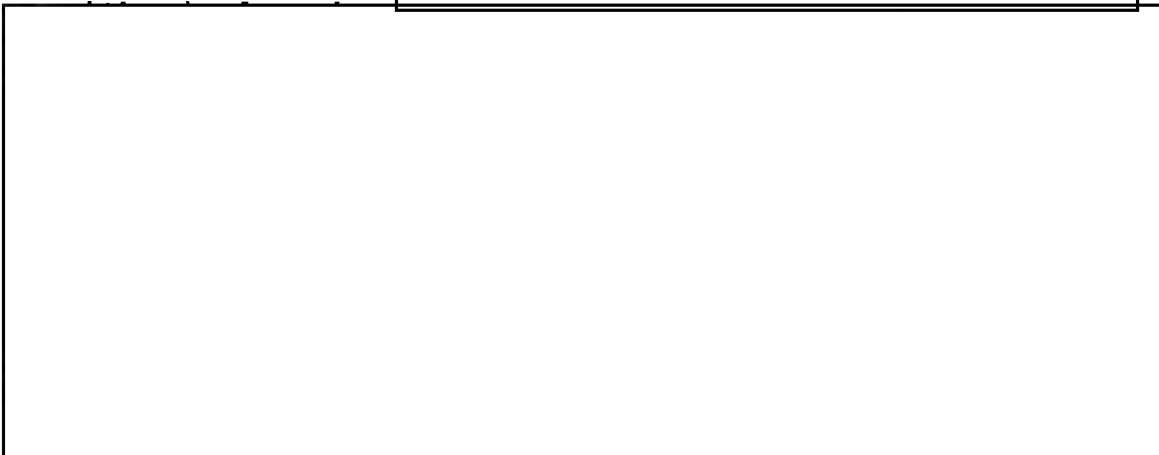


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FRANCE: The French armed forces have announced that the Pluton surface-to-surface tactical missile is now operational with one artillery regiment. Five additional French regiments are scheduled to receive the Pluton system.



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\*ICELAND: Prime Minister Johannesson dissolved the Althing early this morning and called new elections for June 30. Johannesson's center left government is likely to be replaced by a more moderate coalition of the opposition Social Democratic and Independence parties.

The Prime Minister's attempts to deal with Iceland's alarming economic problems sparked the withdrawal of the Liberal Left Organization from the coalition on May 5. Johannesson's anti-inflation measures, calling for a rollback of a February general wage increase and the disengagement of wages from the cost of living index, were submitted to the Althing without the approval of his two coalition partners, the Liberal Left Organization and the Communists.

The politically explosive proposals were designed to attack a runaway inflation that has all but crippled the country. Enormous wage increases, the oil crisis, strikes in key industries, and lower prices for fish exports, Iceland's most important source of revenue, brought about the economic paralysis.

A moderate coalition will be better disposed than the outgoing government to negotiate a base agreement that will enable the US to maintain a sizable force at the Keflavik base. Leaders of both the Social Democratic and Independence parties favor retention of the base.

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\*Because of the shortage of time for preparation of this item, the analytic interpretation presented here has been produced by the Central Intelligence Agency without the participation of the Bureau of Intelligence and Research, Department of State.

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EC-ITALY: The failure of Italy's EC partners to agree this week on a common response to Rome's measures restricting imports is another manifestation of continued preoccupation with national interests of member states.

Divergent interests of the member states in the presently strained economic climate prevented agreement. The Commission had proposed Council authorization of the Italian measures in return for a mutual assistance program that would be conditioned on Council approval of a stabilization plan to be worked out by Italy.

Rome would not accept such scrutiny of its domestic economic affairs and, in any case, Italian Treasury Minister Colombo stated that Italy was not eager for medium-term credits in the present circumstances. France and Germany refused to countenance the restrictions the Italian measures place on agricultural exports. The British, on the other hand, were sympathetic to Rome's actions, and Foreign Secretary Callaghan's comments are being interpreted in some quarters as challenging the right of the community to pronounce on national economic measures.

The upshot of the Council discussions was to activate a treaty provision under which the Commission can authorize the Italian measures in return for certain minimal conditions involving their administration--thus in effect legitimizing the Italian action within the community framework. In addition, the Commission will submit other recommendations to Rome on internal economic measures to cope with Italy's deteriorating balance of payments. It will also try to work out a new program including medium-term aid, which presumably could be offered to induce Rome to remove some of the import restrictions--particularly those on beef and automobiles. The entire series of measures and products affected will be reviewed by the Commission by June 30.

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The community will still have to wrestle with the agricultural aspects of the Italian restrictions, which pose the most sensitive immediate problems for vested interests among Italy's partners.

There was no sympathy at the Council session for a Belgian proposal that would have given preference to EC members over outside suppliers in the application of the Italian measures.

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INDIA: The nationwide railway strike which began on May 8 is not total, but rail service to all key urban and industrial centers has been crippled. The government is attempting to maintain minimal services by using the military, police, and "loyal" employees. Priority on the rails has been given to food shipments and to fuel for industrial and power plants.

So far there have been no reports of violence. If the strike takes a violent turn, security forces will be hard pressed to protect railway property as well as keep essential freight moving. In any event, serious food shortages are likely to develop, particularly in urban centers where stocks are low.

Prime Minister Gandhi refuses to intervene personally in the strike, but she endorses a tough line against union demands for steep wage hikes. She apparently is counting on the strike's fizzling in a few days as a result of disagreements among the highly politicized unions.

A few unions, including a major federation affiliated with Mrs. Gandhi's Congress Party, are not participating in the strike.

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CAMBODIA: Prime Minister Long Boret continues to face difficult political problems. He has told the US ambassador that he has been unable to reduce friction between the National Assembly and the cabinet.

The assembly, which consists entirely of members of President Lon Nol's Socio-Republican Party, is insisting that the three cabinet ministers who are members of Sirik Matak's minority Republican Party appear before the legislature to defend their ministerial programs. The Republicans, however, have refused to do so because they hold that the assembly was elected illegally and has no authority. Boret said that the assembly had turned down his offer to appear on behalf of the recalcitrant ministers.

The Prime Minister also stated that leaflets have been circulated in the capital denouncing him for "shielding" the ministers.

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In addition to the assembly problem, Boret is bothered by fresh displays of unrest by some of Phnom Penh's students and teachers. The students have displayed posters and banners in the city criticizing the government's failure to reduce corruption and curb inflation. Although Boret initially advocated arresting student activists, he has been overruled by Lon Nol.

The President took the line that any strong measures against the small number of hard-core anti-government agitators involved might provoke large-scale student disorders which could get out of hand, "as happened last year in Bangkok." Lon Nol instead told Boret to work with moderate students to mold them into a counterforce against their radical colleagues.

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For their part, the teachers are again grumbling about the government's failure to take action on their economic grievances. Teachers at several schools reportedly have gone out on strike this week, and there are indications that another full-scale teachers' strike may be declared in the capital soon if the government does not respond to teacher demands for an immediate salary increase pegged to the rate of inflation.

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SRI LANKA: Colombo is hoping that Western donors--including the US--will offer substantial new aid at the consortium meeting in Paris next week. Colombo also sent a delegation to Saudi Arabia, Kuwait, Abu Dhabi, Egypt, and Libya early this month to obtain Arab financial assistance.

Sri Lanka's soaring trade deficit, expected to reach about \$260 million this year, is causing Colombo serious balance-of-payments difficulties. Costly grain purchases and much higher oil prices will increase the import bill by some 75 percent; exports are expected to grow by only 25 percent.

Foreign exchange reserves of \$85 million at the start of 1974 cannot cover the deficit. Aid funds already arranged amount to about \$100 million, including a Soviet grain credit and a standby credit from the International Monetary Fund. Unless further assistance is forthcoming, Sri Lanka will be forced to cut back on already austere import levels.

Such stringencies could cause further political difficulties for the government. Prime Minister Bandaranaike's sudden moves last month to curtail criticism by the opposition resulted largely from fear that the opposition was making political capital by stimulating public reaction against the government's handling of the economy.

As the economic picture continues to darken, Mrs. Bandaranaike, pressed by the two far-left parties in her coalition government as well as by members of her own family, may decide to take even tougher measures against her opponents. This in turn could lead to a political confrontation in which the position of the security forces would be crucial.

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IRAQ: Despite continued heavy fighting between government forces and Kurdish rebels in parts of the north, Baghdad is sticking to its underlying strategy of trying to divide the Kurds and isolate rebel leader Mulla Mustafa Barzani.

This strategy combines limited military pressure, promises of economic benefits for the Kurdish people, and implementation of nominal autonomy for anti-Barzani Kurds. Thus far, however, Baghdad's approach has failed to attract any significant number of Kurds, and the government is resorting to heavy military action in the face of uncompromising and costly Kurdish resistance. According to the US Interests Section in Baghdad, some elements within the government, including President Bakr, are pushing for an all-out military effort.

So far, Baath Party strongman Saddam Husayn, who is the principal architect of the government's present policy, has successfully resisted such pressures. Husayn's next political moves apparently will include the early creation of the regional legislature and executive that were promised the Kurds under the autonomy program announced by Baghdad last March. In a recent speech he said the members of these bodies, which are to be located in Irbil, would be announced soon. In addition, preparations are under way to bring a rump Kurdish Democratic Party into the regime's National Front government.

In the meantime, military pressure will be continued. Bombing attacks against Kurdish strongholds in eastern Iraq, which have increased in the past few days, may be the prelude to a major offensive against key Kurdish positions near Ruwanduz and Sulaymaniyah. The government's economic blockade against Barzani-controlled areas will also be tightened. A major effort will probably be made to sever the supply line from Iran in order to make the blockade more effective and to disrupt the flow of military supplies to the Kurds. Increased Iraqi military activity in this area could provoke an Iranian reaction.

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GUYANA: The government reportedly intends to start the process of nationalizing Reynolds Guyana Mines, a US-owned bauxite-producing firm. The Reynolds operation, covered by \$14.3 million in OPIC insurance, is the only privately owned bauxite facility still functioning in Guyana; a much larger bauxite-alumina operation owned by Alcan was nationalized in July 1971.

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A sharply critical editorial in a government-controlled weekly late last month may have been the first in a series of moves to alert the country and Reynolds that Burnham fully intends to assert Guyana's control over all its bauxite resources. If the plans for nationalization are implemented, compensation will probably be offered but the terms may not be satisfactory to Reynolds.

Burnham realizes that precipitous moves against Reynolds at this time probably would cause some economic dislocations, but his earlier strong statements on nationalization are making it increasingly difficult for him to delay any longer.

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ARGENTINA-USSR: Press reports of a \$600-million Soviet credit to Argentina for power projects are probably exaggerated. According to the US Embassy in Buenos Aires, the Argentine delegation now in Moscow is scheduled to sign a \$75-million contract for generators for the \$600-million Salto Grande hydroelectric plant on the Argentina-Uruguay border.

This is the only major undertaking in Argentina for which Moscow is likely to extend credits at this time. Several other projects, including port construction and steel-making equipment, are still in a preliminary stage of discussion. Contracts for most of the other power projects mentioned in yesterday's press reports as part of the aid package already have been awarded to other foreign firms.

The USSR's economic interest in Argentina derives from Moscow's need to expand exports to correct its trade imbalance. [REDACTED]

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FOR THE RECORD

Japan-China: The lower house of the Japanese Diet unanimously ratified the Japan-China aviation agreement on May 7, after pro-Taiwan members of the ruling Liberal Democratic Party staged their last protest by boycotting the session. The agreement must now be approved by the upper house, but no difficulties are anticipated, and the accord will probably be passed on May 15. [REDACTED]

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Mauritania - Arab States: President Ould Daddah announced on his return from a three-week fund-raising trip that he had obtained an \$87-million credit from the Arab oil-producing countries. The credit from Kuwait, Qatar, Abu Dhabi, and Saudi Arabia is to be used for an iron and steel complex, a 685-mile road in eastern Mauritania, a commercial and fishing port, and an agricultural project in southern Mauritania. [REDACTED]

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